U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Introduces "Tequila Tariff" Bill Over Mexican Barrier to U.S. High Fructose Corn Syrup

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, today introduced legislation to impose trade duties on Mexican products such as tequila in retaliation for that country's barrier to imports of U.S. high fructose corn syrup. Grassley called the bill a measure of last resort and urged Mexico to reverse its trade-prohibitive policy before the United States has no alternative but to impose the new duties.

"Mexico has had plenty of time to end this bad trade policy," Grassley said. "There's been some movement there, but the barrier to U.S. high fructose corn syrup remains in place. If Mexico maintains its tax on high fructose corn syrup from the United States, then we'll have to start imposing retaliatory tariffs on tequila, tomatoes, avocados, and other farm products from Mexico. We've been forced to this point. Fair is fair."

Grassley has made a concerted effort this year to persuade Mexico to lift its tax on soft drinks containing high fructose corn syrup, which operates as a de facto ban on imports of this product from the United States. Mexico's tax violates the country's international trade commitments and harms Iowa corn farmers, Iowa high fructose corn syrup producers, and others in the United States. Having given months of warning to Mexican legislators, and unable to wait any longer, Grassley chose today, the last day of the U.S. Senate's legislative session this year, to introduce his legislation to pressure Mexico to comply with its trade commitments.

Grassley's floor speech on the *Mexican Agricultural Trade Compliance Act* and a bill summary follows.

FLOOR SPEECH OF SENATOR CHARLES E. GRASSLEY UPON INTRODUCTION OF THE MEXICAN AGRICULTURAL TRADE COMPLIANCE ACT

Mr. President, I rise today to introduce the Mexican Agricultural Trade Compliance Act. This bill directs the U.S. Trade Representative to retaliate against Mexico over that country's de facto prohibition on the importation of U.S.-produced high fructose corn syrup.

I introduce this bill reluctantly. For months I have made it clear, through letters, floor statements, a hearing, and a trade roundtable, that if the Mexican Congress did not lift its illegal 20 percent tax on soft drinks containing high fructose corn syrup, I would be forced to consider introducing retaliatory legislation, such as this "tequila tariff" which also covers other agricultural products.

We're at the end of our legislative session and there has been no action by the Mexican Congress. So, I'm faced with no alternative but to introduce this bill.

Let me explain how we got to where we are today. Mexico was formerly the largest export market for U.S.-produced high fructose corn syrup. But since 1997, Mexico has engaged in a concerted effort to restrict U.S. imports of this product. Throughout this time, Mexico has consistently violated its NAFTA and WTO commitments.

Let me give you a short history of Mexico's unjustified actions. In February 1997, Mexico initiated an antidumping investigation on U.S. high fructose corn syrup, followed by the imposition of an antidumping order the following year. The United States challenged Mexico's antidumping order under the NAFTA. On two different occasions, NAFTA panels determined that Mexico's actions violated its NAFTA obligations.

The United States also challenged Mexico's antidumping order at the World Trade Organization. On two separate occasions, the Dispute Settlement Body of the WTO held that Mexico's actions violated its international trade commitments.

But Mexico continued to ignore its NAFTA and WTO obligations. In fact, Mexico went one step further and in effect threw gasoline onto the fire. On January 1, 2002, in a transparent attempt to evade the NAFTA and WTO determinations against it, Mexico imposed a 20 percent tax on soft drinks containing high fructose corn syrup. The intent and effect of this tax was to continue Mexico's antidumping order on U.S. produced high fructose corn syrup by other means.

In April 2002, with its tax now in place, and in a continuous event with the imposition of this tax, Mexico lifted its antidumping order on high fructose corn syrup. These actions enabled Mexico to make the disingenuous claim that it had come into compliance with the findings adopted by the NAFTA and the WTO regarding its antidumping order.

The effects of the import restrictions of Mexico's antidumping order continue, with even more egregious results. Because of Mexico's tax, U.S. exports of high fructose corn syrup to Mexico are now at almost zero levels.

This is an extraordinary situation. Mexico lost under the NAFTA, and it lost at the WTO. Instead of coming into compliance with its NAFTA and WTO commitments, Mexico responded by imposing a de facto ban on imports of U.S. high fructose corn syrup. Mexico is not only violating its international trade commitments, but also causing significant harm for Iowa's corn farmers. Iowa's producers of high fructose corn syrup are suffering as well. I know of no other U.S. agricultural product that has been shut out of its largest export market for so long.

The United States has worked diligently, and patiently, with Mexico on this issue. U.S. Trade Representative Robert Zoellick and Ambassador Allen Johnson, our Chief Agricultural Negotiator, have put in countless hours trying to convince Mexico to come into compliance with its trade obligations regarding high fructose corn syrup. But still, the tax remains in place.

My colleagues on both sides of the aisle, and in both the Senate and the House, have repeatedly contacted Mexican officials reminding them of Mexico's trade commitments with regard to this issue. But still, the tax remains in place.

I too have worked hard, since the beginning, to try to convince Mexico to lift its de facto ban on the sale of U.S.-produced high fructose corn syrup. As I have mentioned, I've written letters to Mexican officials, delivered floor speeches, conducted a Finance Committee hearing, and held an agricultural roundtable, all in an effort to convince Mexico to lift its de facto ban on imports of U.S. high fructose corn syrup. During a hearing of the Finance Committee on September 23rd, I stated clearly that if the Mexican tax on soft drinks containing high fructose corn syrup was not lifted – and soon – I would be forced to consider introducing retaliatory legislation. But still, the tax remains in place. So now, at the end of our legislative session, I see no alternative but to introduce the Mexican Agricultural Trade Compliance Act.

The Mexican Agricultural Trade Compliance Act establishes that the Government of Mexico has engaged in a pattern of activity that has continuously denied the rights of U.S. exporters of high fructose corn syrup under existing trade agreements. Further, the denial of these rights is unjustifiable and burdens or restricts U.S. commerce. Therefore, Mexico's actions meet the statutory criteria under section 301 of the Trade Act of 1974 for retaliatory action.

The Mexican Agricultural Trade Compliance Act requires the U.S. Trade Representative to retaliate, pursuant to section 301, against imports from Mexico within 60 days of enactment of the Act. However, the U.S. Trade Representative shall not take such action if he certifies, within 30 days after enactment of the Act, that Mexico has eliminated its tax on soft drinks containing high fructose corn syrup and is according the U.S. high fructose corn syrup industry the benefits of all applicable trade agreements.

I fully hope that, prior to the return of the U.S. Senate in January, the Mexican Congress will act rationally and bring Mexico into compliance with its international trade obligations regarding high fructose corn syrup. If it does not, I'll work hard to advance the Mexican Agricultural Trade Compliance Act through the Senate. Given the large number of unjustified barriers imposed by Mexico over the past months against imports of U.S. agricultural products, Mexico has not been earning goodwill with Members of the Senate. I expect that my legislation will receive broad support.

I also intend to work with the U.S. Trade Representative to designate Mexican products upon which retaliatory duties will be imposed. The products on this list will consist first and foremost of Mexican agricultural products that are prospering on account of their access to the U.S. market. These Mexican products will likely include bottled tequila, tomatoes, bell peppers, avocados, limes, asparagus, mangos, papayas, watermelons, honey, pecans, and shrimp and prawns. The total amount of duties imposed on these Mexican products will equal the lost sales being experienced by U.S. producers of high fructose corn syrup on account of Mexico's de facto ban of this product, an amount which – according to U.S. industry – could be as high as $465 million annually.

Let me conclude by stating that I know that some in Mexico are working constructively to try to resolve this issue. Earlier this month, President Fox of Mexico sent to the Mexican Congress a formal request to repeal the tax on high fructose corn syrup. I hope that his request becomes law. I appreciated the offer of Mexico's Secretary of Agriculture, Javier Usabiaga, to speak with me regarding the tax, and I regret that our schedules have not permitted us to meet personally. I also note that U.S. and Mexican private sector representatives have been negotiating over access for U.S. high fructose corn syrup to the Mexican market.

Regardless of these efforts, Mexico's de facto ban on imports of U.S. high fructose corn syrup remains in place. Meanwhile, Iowa's corn growers and Iowa's high fructose corn syrup producers continue to suffer on account of Mexico's NAFTA and WTO illegal actions. Again, I strongly hope that Mexican legislators will remove Mexico's tax on soft drinks containing high fructose corn syrup prior to the return of the U.S. Senate next January. But if this tax is not repealed by January, I have every intention of working to advance this legislation through the Senate.

Mr. President, I'm a strong believer in free trade. I fought hard for passage of the NAFTA. I did so because I know free trade benefits farmers in Iowa and other states. U.S. agriculture certainly benefits from the NAFTA, as does Mexican agriculture. But Mexico has engaged in a blatantly illegal act against U.S. agriculture for too long. Mexico's action is having a particularly negative impact on my state of Iowa. If we are to maintain support for free trade in this country, we must ensure that our trading partners live up to their obligations. If they do not, we must take action. I hope the introduction of this bill sends a strong message to my Mexican counterparts that we are ready and willing to stand up for U.S. agriculture. I sincerely hope that they will do the right thing and repeal their illegal tax on high fructose corn syrup. I hope they repeal their illegal tax to demonstrate their commitment to living up to the letter and spirit of Mexico's promises under NAFTA and the WTO. I hope they repeal their illegal tax to improve relations between the United States and Mexico and to bring the benefits of free trade to consumers and producers in both countries. And, Mr. President, I hope they repeal their illegal tax so the Mexican Agricultural Trade Compliance Act is no longer needed. But, if that's what it takes, then that's what we should do.

Senator Charles E. Grassley
Mexican Agricultural Trade Compliance Act
Summary

- The Mexican Agricultural Trade Compliance Act (MATCA) finds that the Government of Mexico is engaged in a systematic pattern of behavior designed to deprive legitimate access to the Mexican market for U.S. exporters of high fructose corn syrup.

- The MATCA notes that these efforts to deprive U.S. high fructose corn syrup exporters access to the Mexican market were found inconsistent with the Government of Mexico's international trade obligations by the WTO Appellate Body on two separate occasions. In addition, NAFTA panels on two different occasions determined that Mexico's actions violated Mexico's international trade commitments. Mexico's imposition of a 20 percent tax on soft drinks containing high fructose corn syrup is the most recent manifestation of these efforts.

- The MATCA thereby establishes that the Government of Mexico has engaged in a pattern of activity that has continuously denied the rights of U.S. exporters under existing international trade agreements and that denial of these rights is unjustifiable and burdens or restricts U.S. commerce, thereby meeting the statutory criteria under Section 301 of the Trade Act of 1974 for retaliatory action.

- The MATCA requires the United States Trade Representative (USTR) to retaliate, pursuant to Section 301 of the Trade Act of 1974, against imports from Mexico within sixty days of enactment of the MATCA, unless the USTR certifies within 30 days after enactment of the MACTA, that the Government of Mexico has eliminated its most recent barrier to U.S. exports of high fructose corn syrup and is according the U.S. high fructose corn syrup industry the benefits of all applicable trade agreements.

- Products which could be subject to retaliatory duties include bottled tequila, tomatoes, bell peppers, avocados, limes, asparagus, mangos, papayas, watermelons, honey, pecans, and shrimp and prawns.

- Retaliatory duties could be as high as $465 million annually.